



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

NORTH AMERICAN REVIEW.

No. CCCXXIII.

OCTOBER, 1883.

GOLD AND SILVER AS STANDARDS OF VALUE.

IN the contest, which has been waged for a number of years, between the advocates of mono-metallism and bi-metallism, it has become apparent that the majority of the people of this country desire that silver, as well as gold, should be coined, at least to the limited extent provided for by the act of 1878. They desire it, not for the purpose of inflating the currency, nor for the purpose of benefiting certain sections of the country in which silver mining constitutes an important and profitable industry, as has been so often derisively charged by the mono-metallists, but for the broader and more equitable purpose of preserving uniformity in the value of metallic money, and more especially to prevent such a contraction of the total volume of money as would fatally depress prices, pervert the equity of contracts, ruin debtors and tax-payers, aggrandize moneyed capital, and impoverish the masses of the people.

Justice to all classes of people—to the poor and the rich, to the laborer and the capitalist, to the debtor and the creditor—requires that we should so legislate as to preserve for money, as nearly as possible, a uniform value, or, in other words, a steady purchasing power. The money which the borrower should pay the lender, at the maturity of the debt, should be of the same value as that which was received when the debt was made.

VOL. CXXXVII.—NO. 323.

23

Since the passage of the act of 1878, by the coinage of silver, the United States have added about \$150,000,000 to the metallic money of the country. That it has not thereby created an inflation of the currency, and that that none is threatened, but that the volume of money is too small rather than too large, is shown by a tendency to falling prices.

The address of Mr. Goschen, April 8, 1883, before the London Institute of Bankers, upon the increase of the purchasing power of gold, or, in other words, upon the fall in the gold price of commodities, within ten years, has excited lively discussion in Europe and in this country. The criticisms upon his address have been varied and numerous; but none of his critics have denied his proposition that prices have fallen, or that Mr. Goschen is right in assigning, as one of the conspicuous causes of the fall, the increased demand for gold arising from the demonetization of silver by several countries. They have not, so far as I have observed, gone beyond the attempt to show that Mr. Goschen has somewhat overstated the new demand for gold, and that the other causes for a fall in prices are more numerous than he supposed them to be.

The London "Times," which, upon the whole, does not regard the fall of prices as a thing to be deprecated, or as affording an occasion for measures to relieve the constriction of gold, says in its issue of May 7, 1883:

"Prices at the present day are, on the whole, lower than they were ten years ago. They are as low, or nearly as low, as they were in the old days before the great gold discoveries had been made. . . . It is certain, as Mr. Goschen says, that prices of commodities are affected by changes in the volume of the circulating medium in which they are expressed. . . . Germany, Italy, and the United States have, during the past ten years, been absorbing in their currency more gold than the available supply. They have taken between them not less £200,000,000, and a large part of this has necessarily been obtained at the expense of the general stock. The result has been that, as the stock of gold has diminished, the price of gold has gone up; or, in other words, that the prices of commodities have fallen. It is impossible that so large a drain of gold can have failed to affect prices. Mr. Goschen must be admitted to have made out his case thus far. He has laid his finger on a cause, and it is demonstrably a *vera causa*, capable of the effect he assigns to it. But an examination of his figures will show that other causes have been concurrently at work."

It is difficult to compute the exact rise and fall of the general range of the prices of commodities, and persons desirous of ascer-

taining the truth may differ somewhat in the results at which they arrive. The method lately adopted by esteemed English authorities, as affording the closest approximation to accuracy, is that of comparing the prices in different years of all the articles imported into and exported from Great Britain, in respect to which the Custom-house statements admit of tracing the relation between quantity and money valuation. This is true of about three-fourths of the whole mass of imports and exports. Considering the immense magnitude of British foreign commerce, and that it embraces almost everything that is bought and sold by mankind, either for consumption or as raw materials for manufactures, it would seem that the prices of commodities could not be more reliably ascertained.

Robert Giffen, Secretary of the British Board of Trade, in a paper read March 21, 1882, before the London Statistical Society, said in respect to the fall of prices in Great Britain during six years ending with 1879: "The range of difference in the aggregate values of the exports of the United Kingdom, owing to the difference of price alone, amounted to thirty per cent. between 1873 and 1879."

The determination of the German Government to adopt a single gold standard was announced by decrees in December, 1871, but during 1872 nothing was done beyond coining about \$100,000,000. It was in 1873 that the demonetization of silver, the melting of silver coins, and the sale of bullion, by the German Government, actually began. The six following years were marked by a continuous and extraordinary fall in prices and depression of industry throughout the whole commercial world. There may have been other and contributory causes for this fall and depression; but it cannot be successfully controverted, and I believe it has never been denied by financial writers upon the subject, that among the principal causes was the silver demonetization of Germany, followed by a similar policy in Denmark, Sweden, Norway, and the United States.

Since 1877 the London "*Economist*" has made semi-annual and annual comparisons of the prices of imported and exported articles. In its issue of January 27, 1883, it exhibits the prices for each of the five calendar years ending with 1882. The starting point of its comparison is \$1,422,200,000 of imports and \$714,550,000 of exports in 1877. It then proceeds to show the changes in the aggregate money valuation of the same articles in each of

the next five years, as compared with the immediately preceding year, which resulted from changes in price, and excluding the effect of changes in quantity.

From the figures of the "Economist" it appears that there was in 1880 an increase of \$105,450,000; but in each of the other four years a decrease as follows:

<i>Years.</i>	<i>Decrease of Prices.</i>	<i>Years.</i>	<i>Decrease of Prices.</i>
1878.....	\$138,250,000	1881.....	\$48,800,000
1879.....	113,300,000	1882.....	30,650,000

The comparisons of the "Economist" which cover articles dealt in by the British foreign trade, of the enormous value of \$2,137,750,000 in 1877, are the best attainable evidence of the fluctuation of prices throughout the commercial world. The year 1877 was itself the fourth year of a period of falling prices which commenced in 1873, the date of the German demonetization of silver.

When the agitation for a single metallic standard was commenced by Chevalier and others in 1855-6, immediately after the great out-turn of gold by California and Australia, the sole ground upon which it was based was the danger, if the world continued to use both the metals as money, of a depreciation of the money standard and of a hurtful inflation of prices; but now, in the presence of a large and continuing fall in prices, it has become apparent that the use of both the metals will be required, and may not even be adequate to prevent a monetary constriction, which will lower the value of all forms of property.

The New York "Public," although it ably and persistently advocates the discarding of the use of silver money, is forced to admit that gold is growing dearer and the gold price of merchandise lower. I quote from its issue of March 23, 1883:

"The year 1882 was one of remarkably general and important decline in prices, both in this country, in Great Britain, and on the Continent. Generally speaking, the purchasing power of gold was decidedly increased during the year 1882 throughout the western world."

The rise of prices, commencing in this country in 1879 and a little later in Europe, proved to be only a temporary reaction, such as will occur in any general course of the markets, whether up or down. It was assisted undoubtedly by the resumption of

silver coinage in this country, under the act of 1878, notwithstanding the hostile, halting, and partial administration of that law.

The writer of the article in the London "Times," already quoted from, endeavors to allay the fears of mankind, as to a further rise in gold, by making the following observations :

"Mr. Goschen's calculations do not help us to forecast the purchasing power of gold. The drain of gold has been temporary. The supply goes on, and apart from the exceptional demand of the last ten years, it is in excess of the world's wants. How, then, will the case stand when the world at large has recouped itself for its late losses ? The tendency of things seems to point to a lower value of gold, unless, indeed, some other nations are to be found to do what Germany, Italy, and the United States have been doing, and to absorb, or more than absorb, the whole future yield. If nothing of that kind happens, we may look for a return to higher money prices. It is more certain that the supply of gold will continue than that the demand will rise in proportion. Again, a rise in the value of gold serves as a stimulus to the production of gold."

It is quite impossible to mistake the animus of the organ of British opinion when it makes so many gratuitous assumptions and overlooks so many obvious facts. There is no ground for the affirmation that the out-turn of the gold mines during the last decade would have been in "excess of the world's wants," or, in other words, would have done anything more than keep prices steady, if silver had not been demonetized in Germany and the United States.

It is true that "a rise in the value of gold serves as a stimulus" to mining for it; but it is also true that the production cannot be enlarged at will, as can be the production of wheat or cotton, but is limited by such fortuitous circumstances as the discovery of mines; and, in point of fact, its actual production has been declining during the last ten years, while its value has been rising.

That the fall in prices, during the last ten years, may be accounted for in part by the demonetization of silver does not admit of a doubt, but there are other conspicuous causes for the fall which have been generally overlooked by writers upon this subject. I refer to the large increase in the consumption of gold in the arts and manufactures and to the decrease in the production of the mines.

Soetbeer, who has been the principal writer and statistician

of the supporters of the gold mono-metallic policy of Germany, printed two exhaustive essays in 1881, the first upon the world's production of gold during the fifty years ending with 1880, and the second upon the consumption of that metal in the arts during the same time in Europe, America, and Australia, and exclusive of Asia and Africa. No living statistician enjoys a higher reputation for industry and care, and of course he cannot be suspected of a desire to underrate the annual supply of gold for monetary purposes, which is the excess of its production above its consumption in the arts. He gives the following table :

<i>Decade ending with</i>	<i>Gold produced in the world.</i>	<i>Gold consumption in the arts in Europe, America, and Australia, exclusive of old materials used.</i>
1840	\$134,915,830	\$119,629,100
1850	364,206,280	132,922,000
1860	1,341,182,290	186,090,800
1870	1,252,789,850	382,150,750
1880	1,131,830,830	556,092,070

During the decade ending with 1880 the average annual consumption of gold was \$55,609,207, but inasmuch as there has been a constant and large increase of consumption, in recent years, the actual consumption must have been much greater at the end than at the beginning of the decade. We may fairly estimate that \$55,609,207 was the consumption of the middle year of the decade, and that the increase during the eight years that have since elapsed has been \$13,915,304. This is, of course, assuming that the annual increase of \$1,739,413, which is shown by comparing the decade ending with 1880 with the decade ending with 1870, has continued through the past eight years. There are many facts going to show that the increase for the past eight years has been more rapid.

If the figures of Soetbeer are correct, and they are generally admitted by statisticians on this subject to closely approximate correctness, the annual consumption of gold in the arts in Europe, America, and Australia is at the rate of \$69,524,511. In reaching these figures Soetbeer has made an allowance of from ten to twenty-five per cent. in the different countries, for gold obtained from old articles of ornamentation, which have been remanufactured.

In no country has the effort to ascertain the consumption of the precious metals in the arts, by government authority, been

more thorough than in the United States. It was undertaken here for the first time by Mr. Burchard, Director of the United States Mint, and has been executed with creditable industry, care, and skill. In addition to obtaining from the assay offices the delivery of gold to jewelers, he has received replies to thousands of letters addressed to persons engaged in all the arts in which the precious metals are used. His conclusion, as given in his last annual report, is that the gross consumption of gold in the United States during the fiscal year ending June 30, 1882, exceeded \$12,000,000. He says the statistics do not justify a larger deduction than ten per cent. for old jewelry and plate, in arriving at the net consumption of gold in the arts in that year, which therefore exceeded \$10,800,000 of new gold. This is \$1,827,765 more than the average annual net consumption of this country during the decade ending with 1880, as given in Soetbeer's tables.

The Director of our Mint, in his annual report for November, 1881, says: "From a review of the information published in this and preceding reports and other authorities, I estimate that, including the annual consumption in the United States of \$11,000,000 of gold and \$6,000,000 of silver, the annual consumption of the world in ornamentation, manufactures, and the arts is at least \$75,000,000 of gold and \$35,000,000 of silver."

To the consumption of gold in the arts in Europe, America, and Australia is to be added the steady importation of that metal by British India, where it is not used as money, but is worked into ornaments by the native artisans. It is so common to speak of that country as an absorbent of silver, that we have overlooked the fact that it is also a large absorbent of gold. The official figures of its foreign trade show that, during the thirty years ending with 1880, the average annual excess of Indian imports of gold over exports was \$16,018,330.

The importation of gold by India continues unabated, and may be expected to increase with the rapidly advancing wealth of that country. But taking it at the average rate for thirty years, we have the following results:

Annual gold consumption in Europe, Australia, and America.....	\$69,524,511
In India.....	16,018,330
Total.....	\$85,542,841

The average annual gold production of the world, during the decade ending with 1880, was, according to Soetbeer's table, \$113,183,083; but, as it was at a declining rate, it was less in 1880. Soetbeer estimated it for that year at \$101,000,000, and Sir Hector Hay at \$95,000,000. The estimates of Mr. Burchard, Director of the United States Mint, are higher, being, for three calendar years, as follows:

1879	\$108,778,807
1880	106,436,786
1881	107,773,157

Wells, Fargo and Company estimate the production of the United States in 1882 at \$2,768,682 less than Mr. Burchard. The New York "Mining Record" insists that the world's production of gold in 1882 did not exceed \$90,000,000, the difference between the "Record" and other authorities being most marked in respect to the yield of the Russian mines. Without claiming exact correctness, the total gold yield of the world may be approximately stated at \$100,000,000. Of this total production of gold, the arts and manufactures swallow up fully five-sixths, and this consumption, being almost wholly for objects of luxury and display, must increase in about the ratio in which wealth increases.

The consumption of gold for other than monetary purposes in Europe, America, and Australia has more than quadrupled in thirty years, and has quite trebled in twenty years. It is more than five times what it was half a century ago. The great mass of gold which has flowed from the mines has been absorbed in the same opulence and luxury of the times which have swallowed up the flood of gems, great in volume beyond any former precedent, from the diamond fields of South Africa, and increasing prices will be quite as likely to whet the appetite for both as to check it. Five-sixths of the current production of gold is absorbed in the arts and manufactures, in the western world and in British India. A part of the remaining sixth is lost in the wear of coins and by fires, shipwrecks, and forgotten hoards. What is left to increase the stock of gold money in proportion to the increase of population, exchanges, and wealth of the world? It is possible that the production of gold may increase. It is also possible that it may decrease, as it actually has been decreasing for many years; but there is no uncertainty about the consumption of gold, which is sure to grow *pari passu* with the growing

opulence and luxury of the world. It has trebled within the past twenty years, and if it only doubles within the next twenty years it will exceed the production, even at the extreme rate which it attained when the California and Australia out-turn was at its highest point.

All the conditions have changed since the commencement of the agitation for a single metallic standard. There was then a greater production of gold, and a very much less consumption for other than monetary purposes, and it is not strange that many persons honestly believed that the steadiness of prices could be best secured by confining the functions of money to gold alone. But it is difficult to understand how it can now be believed, under the complete change of circumstances, that a perseverance in that policy can have any other result than a prostration in the prices of every species of property and in the wages of labor, and the serious injury of all indebted persons, classes, and nations. Although the disasters which are sure to follow from this policy will fall most heavily upon the debtor classes, and creditors and money capitalists may derive a temporary advantage, they cannot in the end escape a participation in the evil results. In a general wreck all must suffer, although in different degrees.

The conditions, it must be admitted, are modified where creditors and debtors do not live in the same country. The London "*Economist*" of April 21, 1883, closes its comments upon Mr. Goschen's address by saying:

"There is some consolation to us in the fact to which he directs special attention: that any increase in the purchasing power of gold is a benefit to creditors. Nearly every nation on the face of the earth is indebted to us, and the result of an appreciation of gold is, that we obtain a larger quantity of their commodities in settlement of our claims."

This view of the "*Economist*" is one of the explanations of the support given to gold mono-metallism by classes which are powerful and, perhaps, dominant in some other countries of western Europe besides Great Britain. It shows how idle the suggestion is, that we can force the English and similarly situated nations into bi-metallism by again demonetizing silver ourselves, and thereby precipitating a still further decline in prices. Such a decline is precisely the object which, as international creditors, they desire. We know by an experience too fresh to

be forgotten, that when the depression of 1878-9 was at its worst, the adherence of the governing classes in England and Germany to a gold standard only became more determined and aggressive.

It is not by coöperating with them, but by resisting and defeating their scheme of dislodging silver from its immemorial place as one of the money metals of the world that we shall compel them to abandon it. The present and prospective position of the United States is so strong, and silver is now the favorite currency of so large a part of mankind, that gold cannot be made the exclusive money of the world without our consent. In 1900, we shall have more population and more wealth than Great Britain and Germany combined. We have only to remain firm in our present position. Europeans are too dependent upon foreign trade, and have too much fear of the United States, as a commercial rival, to persevere in a gold policy which would tend to isolate them if we refused to join them in it. We cannot bring upon them the coercive power of low prices without submitting ourselves to the same prices and to all the ruinous consequences which they entail. The success of that species of coercion is, to say the least, too doubtful to justify the enormous sacrifices on our own part which a trial of it must involve.

N. P. HILL.